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AXIA CONNECTS

Axia NetMedia Corporation 2004 Annual Report

The Annual Meeting of Axia NetMedia Corporation will be held on:

**Wednesday, October 27th, 2004 at 11 a.m.**

at:

**Axia's Corporate Offices, 33rd Floor,  
450 1st Street SW, Calgary, Alberta**

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*Statements contained in this Annual Report describe the Corporation's objectives, projections and expectations and may be identified by use of terms such as "should", "believes", "anticipates" and "estimates." By their nature, such forward-looking statements involve risk and uncertainty. These statements reflect the best estimates with respect to future events at any given point in time. Actual results could differ materially from the forward-looking statements, due to risks and uncertainties which include, among others, changes in customer markets, changes in demand for the Corporation's services, inability of the Corporation to deliver services in a timely and cost-efficient manner, technological change and general economic conditions.*



Axia NetMedia Corporation helps organizations and individuals meet the needs of the Knowledge Economy by combining the power of next-generation Real Broadband networks with high-end e-learning applications.

### THREE-YEAR FINANCIAL HIGHLIGHTS

Highlights for the years ended June 30, 2004, 2003 and 2002  
(\$000s except where noted otherwise)

	<b>2004</b>	2003	2002
Revenue	\$ <b>43,888</b>	\$ 99,103	\$ 43,693
Gross profit	<b>7,356</b>	10,193	5,566
Net loss from continuing operations	<b>(6,032)</b>	(12,168)	(7,078)
Net loss	<b>(9,163)</b>	(24,558)	(12,262)
Net loss per share from continuing operations	<b>(0.14)</b>	(0.31)	(0.21)
Net loss per share	<b>(0.22)</b>	(0.62)	(0.37)
Total assets	<b>21,935</b>	34,570	65,124
Shareholders' equity	<b>242</b>	7,939	28,534
Working capital	<b>(4,220)</b>	(861)	909
Other statistics of interest			
Outstanding shares (000s)	<b>42,055</b>	42,055	36,220
Locations/employees (number)	<b>4/181</b>	5/204	16/628



## TO OUR SHAREHOLDERS - AXIA CONNECTS

Axia has a vision of how the marketplace is changing. We believe in the power of combining interactive networks with interactive media to create tools that people need to connect with each other, and to the information they require to work more effectively.

As a company, we are focused on how we connect with our customers, our shareholders and our employees to ensure that we achieve measurable results.

### **Connecting with our Customers by Delivering World-Class Performance**

We connect with our customers by delivering exceptional service in both our Real Broadband and e-learning application businesses.

### **Guaranteed Levels of Connectivity**

Service is what separates Axia's Real Broadband solutions from other high-speed networks as we deliver guaranteed levels of connectivity. Real Broadband gives our clients the ability to quickly and reliably share large amounts of data, audio, video and graphics. Other technologies, such as DSL or cable, offer "best effort" connectivity - which, when traffic levels increase, can mean that the clients' data (a videoconference signal or critical systems information, for example) can degrade or be delayed.

Axia networks operate on Internet Protocol (IP) standards - the de facto global "language" for sharing data - allowing a single network to carry different types of information. IP networks eliminate the need for an organization to build and maintain distinct networks for data, for voice and for video. Our Real Broadband networks also use MPLS (MultiProtocol Label Switching), a routing technology that prioritizes our clients' data and moves time-sensitive data through the network more quickly and efficiently.

## **Alberta SuperNet - A Global Connection**

As you know, the best example of Axia's Real Broadband solution is the Alberta SuperNet, which will provide high-speed, high-capacity connectivity to health, education and government services and to private businesses in more than 400 communities province-wide. Axia is turning up new customers as they are connected to our Network Operations Centre - more than 300 customers are now enjoying Real Broadband connectivity.

The Fort Vermilion School District in Northern Alberta is using the Alberta SuperNet and Axia's high-capacity connectivity to connect the school district's head office, five area schools and a network operations centre in High Level, allowing the district to offer courses to smaller, more isolated centres that may have not been able to afford or attract teachers. Each classroom has a video feed and customized touch screens that allow the teacher to see every location and respond to students' queries using a question button system. Because of the affordable and available bandwidth that Alberta SuperNet offers, our customer (the Fort Vermilion School District) was able to choose a high-quality MPEG2 video solution, which provides roughly the same quality that you get from digital cable or satellite TV. Budget-conscious school administrators often do not consider high-quality systems like this because the high cost of broadband makes it impractical. Once Fort Vermilion is connected to the rest of the Alberta SuperNet when the infrastructure is completed, these northern schools will be able to connect with other learning resources in Alberta and the rest of the world.

## **Building Connections in France**

We continued to build our Real Broadband business with the creation of Axia France, a partnership with Groupe Marais ("Marais") of Durtal (west of Paris near Le Mans), France. Axia France is currently pursuing a number of projects in France including the design, building, managing, operating and marketing of Real Broadband networks and IP services. One network has been completed by our partners in the town of Cosnes sur Loire, south of Paris, and construction is under way on two other networks. Interestingly, we made the connection with Marais when, at a trade fair, they were introduced to our e-learning applications and discovered that we also designed, managed and operated Real Broadband networks, which was a business opportunity in which they had begun to get actively involved.

## **Producing E-Learning Products that can be Deployed Efficiently**

Axia's e-learning applications connect people with the tools and information they need to perform more effectively. Success in today's global economy depends on the ability to share critical information with colleagues, with mentors, with experts. Our network-accessible portals give our clients the power to create, discuss and modify that information within highly secure online "communities of interest."

Information becomes more powerful when it is presented in the context of a dialogue, not a lecture: our portals and database-driven applications help the user to define what information they need; put it in the context of their particular challenge; then share, discuss and refine it with other members of their learning community.

This year we released Version 1.0 of our groundbreaking NOW.net portal-style learning solution to live servers. NOW.net has been implemented in 10 additional Italian provinces from the initial pilot project in Genoa, and the Royal College of Nursing portal continues to serve 28,000 nurses in the United Kingdom, with 1,000 new members joining each month.

Intelligence Online (IO), our web-based professional development workspace for teachers, was named Best Educational Solution by the Canadian e-Content Institute. IO was also recently recognized as one of Microsoft's Innovative Teachers Program Global Partners and is now recognized as a Microsoft Professional Development Alliance Member.

## **Creating Compelling Training Applications**

Under the existing Teaming Agreement, our aerospace and defence services group will be assisting Bombardier Aerospace, Military Aviation Training in completing the training component of the CF-18 Advanced Distributed Combat Training System contract recently awarded to Bombardier by the Government of Canada. We are a highly respected developer of quality, high-precision training applications and have provided sophisticated courseware for the

widely recognized, world-class NATO Flying Training in Canada (NFTC) on which Canada and five other nations undertake military flying training. Bombardier is a long-term customer as we have previously supplied Bombardier Aerospace with computer-based flight and maintenance operations training programs for the CRJ 200, 700 and 900 aircraft.

### **Connecting with our Shareholders by Improving our Financial Performance**

We are focused on our goal of creating shareholder value by generating future positive earnings and cash flow. Our 2004 results demonstrate our improving financial performance, but also highlight the fact that we still have a lot of work to do. We continue to maintain our shareholders' longer term value in the Alberta SuperNet opportunity while taking steps to achieve the short term objective of improving our financial performance. The Alberta SuperNet opportunity has not been compromised while we have accomplished a substantial reduction in our net loss and our gross profit margin improved to 16.8 percent in 2004 from 10.3 percent in 2003. We have made a substantial investment in the Alberta SuperNet and while we have protected our long term interests in this respect, our current financial performance and other growth opportunities continue to be compromised by the prime contractor's delay in the completion of the build.

We earned \$43.9 million in revenues and \$7.4 million in gross profits in 2004 as compared to \$99.1 million and \$10.2 million respectively in 2003. Our revenues declined as 2003 included revenues from construction of the Alberta SuperNet Extended Area Network. More importantly, our gross profit margin improved to 16.8 percent in 2004 from 10.3 percent in 2003 as revenues from operations have a higher margin than construction revenues.

Our net loss dramatically declined from \$24.6 million in 2003 to \$9.2 million in 2004. We are beginning to see the goal line with the end result being profitable earnings and cash flow. We continue to remain focused on being a low-cost operator and reduced our marketing, administration, product and business development costs by 17 percent.

During the year we raised \$13.5 million and used the funds to eliminate our bank operating loans and provide for our working capital requirements. However, we continued to incur operating losses and have a working capital deficiency of approximately \$4.2 million compared to a working capital deficiency of \$0.9 million in 2003. The 2004 working capital deficiency consists mainly of the term debt which matures in mid-2005 and thus has now been classified as a current liability. We remain focused on strengthening our balance sheet but the timing of an ultimate solution depends on progress on our Alberta SuperNet business. We continue to take steps to achieve profitable operations and to obtain sufficient working capital to finance operations through June 30, 2005 and to provide for the orderly payment of \$8.035 million of term debt in the months of June and July 2005. The alternative sources of financing available to us include the issuance of additional equity and the sale or refinancing of assets. There is no assurance that we will be able to obtain funding from these or other sources. If we are unable to obtain sufficient additional funding to finance continuing operations, we will be dependent upon the continued support of our primary lender, failing which our ability to maintain continuing operations may be adversely affected. Please be assured that the majority of senior management's time is focused on ensuring we have enough working capital available to us to fund our operations in the future.

During the year, in accordance with recognized accounting principles, we were required to value the deferred cost of the warrants issued during our debt transaction. This non-cash cost of \$1.5 million was offset by an increase in shareholder equity. Amortization expenses related to these warrants increased expenses for fiscal 2004 to \$0.7 million. The absence of this non-cash amortization would have improved our net loss and loss from continuing operations for 2004 by approximately eight percent to about \$8.5 million and \$5.3 million respectively.

### **Connecting with our Employees to Ensure We Exceed Customer Expectations**

During the past year, we spent a great deal of time with the Axia employee team to ensure that we are all aligned with the goal of exceeding customer expectations. The past 18 months have been difficult ones for our employees as hard decisions were implemented to ensure the correct alignment of employee talents and skills, financial resources and our business objectives.

Our employee group is an incredible team of people who come to work each day with the drive and enthusiasm to provide our customers with inventive solutions, and which has the end result of Axia achieving our business goals. We are always deeply impressed with the creativity and innovation that they bring to their various responsibilities. Our employees provide the foundation of Axia's success.

### **Connecting with the Future - Prospects for 2005**

As we look to the coming year, we intend to continue to build on our competitive advantage of being a market leader in the provision of Real Broadband network design, management, operation and marketing, as well as the deployment of high-end e-learning applications.

Our primary revenue driver continues to be the Alberta SuperNet, which is dependent on the successful completion of the infrastructure by the prime contractor. The financial health and business affairs of Axia is materially impacted by the prime contractor's lack of progress on the Alberta SuperNet build. Given that our main priority is the Alberta SuperNet and with our limited financial resources, we do not expect any major changes in our Interactive Media business segment in the near term.



Art Price  
*Chairman & CEO*



Murray Wallace  
*President*

September 10, 2004

(All numbers in \$000s unless otherwise noted)

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with: the Corporation's audited consolidated financial statements for the years ended June 30, 2004 and 2003 as well as related notes and the Letter to Shareholders included at the beginning of this Annual Report. References to the years 2004 and 2003 are for the fiscal years ending June 30, 2004 and 2003 respectively. Axia's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. All dollar amounts in the MD&A are in Canadian dollars.

Certain statements contained in the following MD&A, and elsewhere in this Annual Report, including, without limitation, statements containing the words believes, anticipates, estimates, expects, and similar words constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from those anticipated in these forward-looking statements. These risks and uncertainties include, but are not limited to: changes in customer markets; changes in demand for the Corporation's products and services; success in marketing Real Broadband networks in other jurisdictions; inability of the Corporation to deliver services in a timely and cost-efficient manner; technological change; and general economic conditions.

The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### **Overview**

Our company helps organizations and individuals meet the needs of the Knowledge Economy by combining the power of next-generation, Real Broadband networks with high-end e-learning applications. We have a vision of how the marketplace is changing and have positioned ourselves to take advantage of those opportunities. We operate in two business segments - Interactive Network Services and Interactive Media Services.

### **Interactive Network Services - A Unique Business Model**

Our Interactive Network Services business segment designs, maintains, operates and markets Real Broadband IP-based communication networks. We specialize in providing large enterprise customers with interactive networks that have guaranteed service levels, and that can deliver business-quality interactive media including video, audio, graphics and data. We provide our customers with a high-performance, full-duplex (bi-directional), multi-megabit bandwidth environment that includes guaranteed connectivity levels, dedicated performance throughput and reliability as opposed to DSL, cable and other technologies which offer "best-effort" connectivity (often shared and dependent on traffic levels) and which in Axia's view are not truly broadband-quality service technologies.

We have developed an innovative business model that challenges traditional telecommunications providers who have focused on delivering network services to more densely populated areas, where they have a large concentrated customer base and more manageable construction costs. Non-metropolitan areas - especially in terms of the Internet and data connectivity - have lagged behind. As governments seek public policy solutions to erase the rural-urban digital divide, our business model delivers network services and creates major opportunities for business and economic growth.

Our business model also creates a competitive environment for the end user by encouraging new local Internet Service Providers (ISPs). Previously, no viable business model existed for local ISPs to go into non-metropolitan areas because of infrastructure costs over long distances. Our business model is founded and structured on the ability to form public / private partnerships which achieve the common goal of Real Broadband connectivity to all of the stakeholders in a particular jurisdiction.



*When operational, Alberta SuperNet will bring Real Broadband service to more than 400 communities.*

## The Alberta SuperNet

The best example to date of the Axia business model is the Alberta SuperNet project, a public / private partnership that delivers a win-win Real Broadband solution to Alberta residents through a careful balance of customer service requirements, revenue / cost sharing, competitive benchmarking and advanced networking technology. Our contract with the Government of Alberta to design, operate, manage and market Alberta SuperNet throughout the province gives us a unique position as a leader in Real Broadband networks, and demonstrates our ability to deliver world-class performance.

Our revenues are largely dependent on the construction schedule for which the prime contractor is responsible. To date progress has been slow and this has had a negative effect on Axia. Once completed, the Alberta SuperNet should generate over \$40 million in gross revenues per year resulting in a 10 - 20 percent pre-tax profit margin from operations and router provisioning. Axia will also earn an additional fee of 20 percent of Alberta SuperNet profits. Another future revenue stream will be the provision of value-added services, such as security services, to Alberta SuperNet customers.

We continue to provide exceptional and proven Real Broadband service to our customers connected to the Alberta SuperNet. However, as a result of delays by the prime contractor as of June 30, 2004, we had only billed 271 customers and, as of September 10, 2004, Axia had 307 Alberta SuperNet customers connected. This represents only seven percent of the forecasted customer base. In addition to government customers, 40 ISPs have connected or have signed letters of agreement to use the Alberta SuperNet to provide IP services to their business and residential customers. The Alberta SuperNet continues to be an attractive value proposition for us given our experience that when the Alberta SuperNet arrives in an area

there is a high percentage take up rate. We remain confident that as soon as the prime contractor completes the build, we will be able to sell our services. As evidence of this, we have been able to contract in advance services in a number of areas in anticipation that the Alberta SuperNet will arrive. Subsequent to the end of fiscal 2004, we received third-party approval for our Fiscal 2005 Alberta SuperNet operating budget.

## Providing Regional Broadband Networks

There is growing interest by municipal level governments in exploring the feasibility of providing Real Broadband to their residents in recognition of its role as the infrastructure of the Knowledge Economy. We continue to perform engineering work on the Columbia Mountain Open Network in the Kootenay region of British Columbia.

In June 2004, we were selected by the Olds Institute for Community and Rural Development to create a business plan to extend the power of the Alberta SuperNet throughout the Town of Olds and surrounding Mountainview County. The business plan will investigate: construction and operation costs, how many customers are needed to make the network sustainable and/or profitable, and various options for providing network access and potential applications (such as Voice-over IP and Internet connectivity) to businesses and residences.

With the creation of Axia France, a joint venture company with Groupe Marais ("Marais"), we grew our Real Broadband business opportunities internationally. Axia France is currently pursuing regional broadband projects in France including the design, building, managing, operating and marketing of Real Broadband networks and IP services. Marais and its partners have completed construction on one network in the town of Cosnes sur Loire, south of Paris. Construction is under way in two other regional networks - department of Maine et Loire, and the town of Creusot Montceau. One other network has been awarded for the city of Caen in Normandie, but construction has not yet started.

During the fourth quarter, we were advised that we were not the successful bidder for the Metropolitan Area Networks in Ireland. Given that our top priority is our Alberta SuperNet

business, Axia Ireland is in the process of being wound up. Subsequent to the end of fiscal 2004, our Irish partner, the IAWS Society, gave notice that it has elected to sell its 10 percent share ownership of Axia Ireland to Axia. The amount of the purchase price is \$1.6 million and has been included in current liabilities for the current year. The current cash balance in Axia Ireland will allow Axia to finance this purchase. In regard to the bid submitted in New South Wales, Australia, we have not incurred any expenses since the second quarter of 2004 and given our current financial limitations, we do not expect to be active there in the foreseeable future.

### Interactive Media Services

Our Interactive Media business segment is involved in providing digital communications solutions and innovative learning applications which include products and services for the workforce development, education, agri-business marketing and communications, aerospace and defence, oil and gas and health media markets.

The business strategy for Interactive Media Services business segment is based on our belief that Real Broadband networks will give individuals and organizations the ability to quickly share large amounts of data, audio, video and graphics. In the Knowledge Economy, information sharing and lifelong learning are key to increased national productivity and prosperity. Real Broadband networks give users the ability to maintain their intellectual capital, which benefits them as well as their organizations. By developing innovative learning applications for specific customers, Axia fuels this ability.

### CF-18 Advanced Distributed Combat Training

In April 2004, we announced that under our existing Teaming Agreement, we will be assisting Bombardier Aerospace, Military Aviation Training in completing the training component of the CF-18 Advanced Distributed Combat Training System contract recently awarded to Bombardier by the Government of Canada. Axia and Bombardier are still in the process of completing the formal arrangements.

### NOW.net Successfully Launched

Axia's Interactive Media segment also released Version 1.0 of its NOW.net portal-style learning solution to live servers. The platform, which is being used in Axia's ongoing projects in Italy and the United Kingdom, allows for quicker deployment by Axia and greater customization by our customers.

### IO Reaching More Students

Intelligence Online (IO), our web-based professional development space for teachers, was recently recognized as one of Microsoft's Innovative Teachers Program Global Partners and is now recognized as a Microsoft Professional Development Alliance Member.

### Fiscal 2004 Consolidated Financial Results

During 2004, we completed a financing for \$8.035 million in term debt and received an additional \$2.0 million of proceeds under the existing long-term facility with Cisco. We repaid a revolving demand term loan bank facility and the \$3.5 million short-term loan received in December 2003.

For the fiscal year ended June 30, 2004, we reduced our net loss by 63 percent to \$9.2 million (2003: \$24.6 million). The net loss from continuing operations for the same period was \$6.0 million, down 50 percent from the previous fiscal year (2003: \$12.1 million). The results for fiscal 2004 and 2003 include the operations of Lifeskills, Parallel, Netricom and Dual Media business units presented as discontinued operations.

Revenues for 2004 were \$43.9 million (2003: \$99.1 million), or 56 percent lower than 2003 primarily due to the windup of the lower margin construction activities on the Alberta SuperNet. On March 18, 2003, Axia renegotiated the construction subcontract and entered into an agreement with the Government of Alberta resulting in Axia no longer continuing as the subcontractor for construction of the extended area network. Under the agreement we retained critical responsibilities including the completion of negotiations for third party



telecommunications assets, the rural network design, and supplying and provisioning of high-end electronics.

Axia retained the 10-year renewable contract with the Government of Alberta to manage, operate and market the Alberta SuperNet. The effective date of the 10-year term is expected to begin some time in Fiscal 2005 after completion of one-third of the extended area network segments.

### Selected Annual Information

The table below outlines selected annual information for the years ended June 30, 2004, 2003 and 2002.

(\$000s)	2004	2003	2002
Revenue	\$ 43,888	\$ 99,103	\$ 43,693
Gross profit	7,356	10,193	5,566
Loss from continuing operations	(6,032)	(12,168)	(7,078)
Net loss	(9,163)	(24,558)	(12,262)
Earnings per share - basic	(0.22)	(0.62)	(0.37)
Total assets	21,935	34,570	65,124
Total long-term financial liabilities	6,173	2,000	-

### Consolidated Quarterly Comparison

The table below outlines quarterly results for the three month periods ended March 31 and June 30, 2004 and December 31 and September 30, 2003.

(\$000s)	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Revenue	\$ 10,598	\$ 12,696	\$ 11,537	\$ 9,057
Gross profit	1,550	2,137	1,984	1,685
Loss from continuing operations	(1,879)	(1,334)	(1,291)	(1,528)
Net loss	(2,032)	(1,346)	(1,273)	(4,512)
Loss per share	(0.05)	(0.03)	(0.03)	(0.11)

The table below outlines certain operating results for the three month periods ended March 31 and June 30, 2003 and December 31 and September 30, 2002.

(\$000s)	Q4 2003	Q3 2003	Q2 2003	Q1 2003
Revenue	\$ 8,988	\$ 23,778	\$ 22,669	\$ 43,668
Gross profit	1,337	3,048	2,888	2,920
Loss from continuing operations	(3,557)	(3,827)	(428)	(4,356)
Net loss	(5,626)	(9,135)	(2,006)	(7,791)
Loss per share	(0.14)	(0.23)	(0.05)	(0.20)

### Revenues

Consolidated revenues for the year ending June 30, 2004 were \$43.9 million (2003: \$99.1 million). Reduced low margin construction revenues generated from the Alberta SuperNet project within the Interactive Networks segment was the primary contributor to the decline.

Interactive Networks revenues were \$27.6 million in 2004 as compared to \$85.1 million during 2003. Approximately 63 percent (2003: 86 percent) of our consolidated revenues were generated from this segment for the year ended June 30, 2004. As previously indicated, a large portion of the Interactive Network segment's revenues for 2003 were generated from certain construction activities, which were wound up as a result of Axia entering into the March 18, 2003 agreement with the Government of Alberta.

Interactive Media segment generated revenues of \$16.2 million for the year ended June 30, 2004, an increase of 16 percent from the previous year (2003: \$14.0 million). The increase was primarily a result of increased revenues from AdFarm, an agri-marketing agency of which Axia owns a 47.4 percent share.

### Gross profit

Consolidated gross profit fell 28 percent to \$7.4 million (2003: \$10.2 million) as a direct result of the reduced Alberta SuperNet construction activity. Gross profit as a percentage of sales in

fiscal 2004 increased to 17 percent from 10 percent in 2003, a direct result of the decrease in low-margin construction activities for the prior year.

The Interactive Media Services segment generated gross profit of \$4.0 million during fiscal 2004 (2003: \$3.5 million) up approximately 12 percent from 2003. This was primarily a result of increased gross profits from AdFarm.

Gross profit for the Interactive Networks segment was \$3.3 million for fiscal 2004, representing a 51 percent reduction as compared to 2003 (2003: \$6.7 million). As previously discussed, this reduction was due to the March 18th agreement with the Government of Alberta.

### **Marketing, Administration, Product and Business Development**

Marketing, administration, product development and business development costs were \$10.2 million in 2004, representing a 17 percent decrease in expenses over 2003 (2003: \$12.3 million). This was a result of reduced administration and product development costs in the Interactive Media segment during 2004.

### **Interest Expense**

Increased financings of short and long term debt during 2004 resulted in increased expense for the current year (2004: \$1.9 million vs. 2003: \$1.2 million). Additionally, 9.05 million warrants to purchase common shares of the Corporation at \$0.60 per common share were issued for current year financings. These warrants had an ascribed value upon issuance of \$1.5 million which is being amortized over the length of the associated debt. This non-cash expense totaled \$0.7 million for 2004.

### **Goodwill, Deferred Costs and Amortization**

Axia reviews the appropriateness of the carrying value of goodwill for its business segments on an annual basis, and more frequently if events or changes in circumstances indicate that an impairment loss may have been incurred. The Corporation performs a projected cash flow analysis, based on a review of historical and projected results for the respective business segment. These projected cash flows are then used to estimate the fair value of each business segment. A goodwill impairment loss is recognized when the carrying amount of the goodwill of a business segment exceeds its fair value. Management also considers whether a long-term impairment in the value of a business has occurred. Based on these assessments, an impairment of goodwill may occur. In 2004 there were no changes to the value of goodwill.

Technology and product development costs for 2004 are \$1.3 million (2003: \$1.8 million). Costs incurred for the development of new Interactive Networks are expensed as incurred throughout the period. Technology and product development costs comprise the software, programming and content development costs for Interactive Media applications that Axia has developed. These costs are amortized on a straight-line basis over three years, once a product has been completed and released for sale.

Axia regularly reviews the capitalized development costs for Interactive Media applications, whereby the unamortized balance of these costs is compared to the projected cash flows for the applications, and a determination is made as to whether the carrying value should be reduced. Many variables and estimates are considered during this process, including estimates as to future market potential, prices and margins as well as product economic life and technological obsolescence, among others. Relative corporate effort to be allocated to various applications with a view to economic environments, delivery systems, and managerial and capital resources also are considered. In 2004, Axia recorded no additional amortization expense.

### **Net loss**

The net loss for 2004 was \$9.2 million (2003: \$24.6 million) or (\$0.22) per share (2003: (\$0.62) per common share). Included in the 2004 amount, \$3.1 million (2003: \$12.4 million) or (\$0.08) per common share (2003: (\$0.31) per common share) related to losses from discontinued operations.

## Dispositions

In fiscal 2004 Axia sold Netricom, its network cabling business, and Dual Media, which had business activities within the recreational media markets. The loss from discontinued operations was \$3.1 million in 2004 (2003: \$12.4 million).

## Liquidity and Capital Resources

The Corporation has continued to incur operating losses and has a working capital deficiency of approximately \$4.2 million as at June 30, 2004 as compared to a deficiency of \$0.9 million in the prior year. Included in the calculation of this deficiency is the inclusion of \$5.1 million of debt not due until June 2005.

During the year, Axia completed financing for \$8.035 million in term debt and entered into an agreement for a final \$2.0 million of proceeds under the existing long-term promissory note facility with Cisco. The proceeds of these financings enabled us to repay our revolving demand term loan bank facility and the \$3.5 million short-term loan received in December 2003.

Axia regularly reviews the level of capital resources, and adjusts its capital spending plans accordingly. This review includes discretionary capital requirements and potential sources of related capital. The evaluation takes into account factors such as the current economic environment, the state of equity markets, the ability to complete equity financings on favourable terms and the availability and prudence of additional debt financing and the sale of corporate assets. The Corporation has continued to incur operating losses and has a working capital deficiency of approximately \$4.2 million compared to a working capital deficiency of \$0.9 million in 2003. The 2004 working capital deficiency consists mainly of the term debt which matures in mid-2005 and thus has now been classified as a current liability. Axia remains focused on strengthening its balance sheet but the timing of an ultimate solution depends on progress on its Alberta SuperNet business. The Corporation continues to take steps to achieve profitable operations and to obtain sufficient working capital to finance operations through June 30, 2005 and to provide for the orderly payment of the \$8.035 million of term debt in the months of June and July 2005. The alternative sources of financing available to the Corporation include the issuance of additional equity and the sale or refinancing of assets. There is no assurance that the Corporation will be able to obtain funding from these or other sources. If the Corporation is unable to obtain sufficient additional funding to finance continuing operations, it will be dependent upon the continued support of its primary lender, failing which the Corporation's ability to maintain continuing operations may be adversely affected.

## Contractual Obligations

Contractual Obligations (\$000s)	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Long-term debt	\$ 11,257	\$ 5,084	\$ 6,173	\$ -	\$ -
Operating and Premise leases	10,641	1,832	4,979	3,390	440
Total Contractual Obligations	21,898	6,916	11,152	3,390	440

## Trends, Commitments, Events, Risks and Uncertainties

Both our Interactive Network Services and Interactive Media Services business segments operate in competitive and evolving markets. These markets are subject to rapid technological change and changes in customer preferences and demands.

The communications, technology and services sectors involve business risks that could significantly impact the operating results, financial condition and future development plans of Axia.

Markets for Axia's products and services are often unproven and undeveloped, highly competitive, and subject to rapid technological change. Our business units face price competition, the challenge of developing new markets, and creating market awareness for many of these products and services.

Axia competes for a substantial portion of its revenues on a competitive bid basis. There is no certainty that Axia will be successful in obtaining future bids, or that successful bids will prove to be profitable.

In addition, there is no certainty that the new products and services being developed by Axia will meet long-term customer acceptance. The product life cycle of these products can be short and subject to rapid technological change.

A significant portion of our business activities are related to the Alberta SuperNet network pursuant to contracts with the Government of Alberta and Bell West, as well as the operation thereof pursuant to a licence agreement with the Government of Alberta. In the event there is a failure to perform these contracts by any party, or if the contracts are put into dispute for any reason, the current and future business operations of Axia would be affected.

Axia's solutions often depend on Axia contracting elements of the solution from third parties. There is a risk these third parties will not perform their obligations or Axia may incur expenses and delays while it enforces its contractual rights.

Axia counters these and other business risks with its ability to attract and retain efficient and well-trained managers, marketers, technical staff and other employees. There can, however, be no assurance that Axia will be successful in attracting new employees or motivating key personnel. Axia continues to attempt to attract, retain and motivate personnel by creating a dynamic working environment and by rewarding employees with a comprehensive remuneration package that includes stock options, benefits, performance-based remuneration and the ability to purchase common shares of Axia on favourable terms.

### **Lawsuits and Disputes**

As reported previously in 2003, Bell West initiated a binding arbitration process involving Axia and the Government of Alberta respecting Axia's draws on a letter of credit which supports Bell West's obligations to Axia under the Alberta SuperNet Access Management and Operations Licence Agreement. Bell West claimed that Axia had inappropriately drawn approximately \$21 million on the letter of credit and further alleged that certain amounts were incorrectly charged. Axia maintained that Bell West's position was without merit, that Axia was entitled to draw on the letter of credit and that Axia had properly invoiced the charges which resulted in the letter of credit draw. The formal arbitration hearings concluded in July 2004 and on September 10, 2004, subsequent to the end of fiscal 2004, the arbitrators issued their binding report which upheld Axia's position on all contractual interpretation issues. In respect of the \$21 million drawn on the letter of credit, approximately 98 percent of the charges were confirmed as appropriate and approximately 2 percent are subject to some adjustment having to do with interest rates charged, calculation of employee benefit amounts and the like. The final adjustment amounts have not been determined at this time.

Axia previously commenced a separate binding two-way arbitration proceeding claiming damages arising from Bell West's repudiation of the Alberta SuperNet construction contract in late 2003. The timing for the conclusion of this arbitration has not yet been determined. This second arbitration is not affected by the September 10, 2004 decision.

### **Accounting Policies**

The consolidated financial statements of Axia NetMedia Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. A comprehensive discussion of Axia's significant accounting policies is contained in Note 3 to the consolidated financial statements. Certain of these policies are recognized as critical because in applying these policies, management is required to make judgments, assumptions and estimates that have a significant impact on the financial results of the Corporation.

### **Outlook**

Axia's primary revenue and profit driver continues to be the Alberta SuperNet, which is dependent on the successful completion of the infrastructure by the prime contractor. Our financial health and business affairs are materially impacted by the prime contractor's lack of progress on the Alberta SuperNet build. Given our limited financial resources and our prioritization of the Alberta SuperNet, we do not expect substantial growth in our Interactive Media business segment in the near term.

*September 10, 2004*

### Management's Report

The accompanying consolidated financial statements of Axia NetMedia Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Corporation's accounting procedures and related systems of internal control are designed to provide reasonable assurance that its assets are safeguarded and its financial records are reliable. Management is satisfied that these financial statements have been prepared accordingly and within reasonable limits of materiality. Further, management is satisfied that the financial information throughout the balance of this report is consistent with the information presented in the financial statements.

The Audit Committee, consisting of non-management directors, has reviewed these statements with management and the auditors and has reported the results of this review to the Board of Directors. The Board of Directors has approved the financial statements.



Murray Wallace  
*President*



Peter L. McKeown, CA  
*Chief Financial Officer*

September 10, 2004

### Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Axia NetMedia Corporation as at June 30, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform our audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants  
Calgary, Canada

September 10, 2004



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# CONSOLIDATED BALANCE SHEETS

June 30, 2004 and June 30, 2003

(\$000s)	2004	2003
<b>Assets</b>		
Current assets:		
Cash	\$ 3,666	\$ 4,914
Accounts receivable	4,509	4,164
Prepaid expenses	87	590
Inventory and work in progress (note 5)	563	516
Current assets of discontinued operations (note 19)	372	8,747
	9,197	18,931
Technology and product development costs (note 6)	434	993
Capital assets (note 7)	3,876	4,333
Goodwill (note 8)	6,634	6,634
Other assets (note 9)	1,794	1,425
Assets of discontinued operations (note 19)	-	2,254
	\$ 21,935	\$ 34,570
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (note 10)	\$ -	\$ 5,502
Accounts payable and accrued liabilities	6,429	5,091
Taxes payable	-	358
Deferred revenue	838	1,642
Cost of excess space (note 27)	349	613
Current portion of term debt	5,084	-
Current liabilities of discontinued operations (note 19)	717	6,586
	13,417	19,792
Deferred revenue	1,367	1,785
Deferred amount (note 23)	-	2,287
Cost of excess space (note 27)	736	767
Notes payable (note 12)	4,000	2,000
Term debt (note 13)	2,173	-
Shareholders' equity:		
Share capital (note 14)	7,939	77,094
Warrants (note 14)	1,466	-
Deficit	(9,163)	(69,155)
	242	7,939
Liquidity and financing requirements (note 2)		
Guarantees, contingencies and commitments (note 4(b), 17 and note 25)		
Subsequent event (note 28)		
	\$ 21,935	\$ 34,570

See accompanying notes to the consolidated financial statements.

On behalf of the board:



C. Kent Jespersen



Arthur R. Price

# CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

For the years ended June 30, 2004 and 2003

(\$000s except per share amounts)

	2004	2003
Revenue	\$ 43,888	\$ 99,103
Cost of products and services sold	36,532	88,910
Gross profit	7,356	10,193
Expenses:		
Marketing	3,601	3,716
Administration	5,269	6,765
Business development	1,317	1,786
Interest and financing charges	1,220	1,168
Warrant financing charges (note 14(b))	689	-
Depreciation and amortization	1,749	2,385
Goodwill impairment (note 8)	-	5,046
	13,845	20,866
Loss before income tax expense	(6,489)	(10,673)
Income tax expense (recovery)	(457)	455
Future income tax expense	-	1,040
Loss from continuing operations	(6,032)	(12,168)
Loss from discontinued operations (note 19)	(3,131)	(12,390)
Net loss	(9,163)	(24,558)
Deficit, beginning of period	(69,155)	(44,597)
Reduction of deficit (note 14)	69,155	-
Deficit, end of period	\$ (9,163)	\$ (69,155)
Loss per share from continuing operations	\$ (0.14)	\$ (0.31)
Net loss per share	\$ (0.22)	\$ (0.62)

See accompanying notes to the consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended June 30, 2004 and 2003  
(\$000s except per share amounts)

	2004	2003
Cash provided by (used in):		
Operating activities:		
Loss from continuing operations	\$ (6,032)	\$ (12,168)
Items not involving cash:		
Depreciation and amortization	1,749	2,385
Goodwill Impairment (note 8)	-	5,046
Warrant financing charges (note 14(d))	689	-
Cost of excess space (note 27)	(296)	547
Future income tax expense (note 12)	-	1,040
Other items	-	(137)
Funds used in continuing operations	(3,890)	(3,287)
Changes in non-cash working capital items:		
Accounts receivable	(345)	3,782
Prepaid expenses	503	1,860
Inventory and work in progress	(47)	6,965
Accounts payable and accrued liabilities	1,338	(1,722)
Taxes payable	(358)	316
Deferred revenue	(1,222)	(3,288)
	(4,021)	4,626
Funds used in discontinued operations (note 19)	(133)	(841)
	(4,154)	3,785
Financing activities:		
Decrease in bank indebtedness (note 10)	(5,502)	(5,813)
Issue of note payable (note 12)	2,000	2,000
Issue of term debt (note 13)	8,035	-
Issue of common shares, net of share issue costs (note 14)	-	3,963
Changes in non-cash items:		
Deferred amount	(2,287)	2,287
	2,246	2,437
Investing activities:		
Acquisitions (note 4)	-	(225)
Funds provided by (used in) discontinued operations relating to investing activities (note 19)	1,969	140
Purchase of capital assets	(712)	(1,123)
Technology and product development costs	(21)	(196)
Changes in non-cash items:		
Other assets	(576)	-
Goodwill	-	(434)
	660	(1,838)
Change in cash	(1,248)	4,384
Cash, beginning of period	4,914	530
Cash, end of period	\$ 3,666	\$ 4,914

See accompanying notes to the consolidated financial statements.

For the years ended June 30, 2004 and 2003 (tabular amounts in thousands of dollars, except per share amounts)

### 1. Description of business

Axia NetMedia Corporation (the "Corporation") design, builds, maintains and operates high-speed interactive networks and provides interactive applications that flow over such networks and related services. The Corporation operates in two segments, being Interactive Network Services and Interactive Media Services.

Interactive Media Services provides traditional and digital communication solutions and innovative learning applications which include products and services for the workforce development, education, marketing and communications and the aerospace and defence markets.

Interactive Network Services designs, builds, maintains and operates broadband IP communication networks.

### 2. Liquidity and financing requirements

The Corporation has continued to incur operating losses and has a working capital deficiency of \$4.217 million as at June 30, 2004. During 2004, the Corporation completed certain financing activities which included the issuance of \$8.035 million of term debt (note 13) to provide working capital and repay the bank demand operating loan.

The Corporation is continuing to take steps to achieve profitable operations and to obtain sufficient working capital to finance operations through June 30, 2005, and to provide for the orderly repayment of \$8.035 million of term debt in the months of June and July, 2005. The alternative sources of funding available to the Corporation include the issuance of additional equity and the sale or refinancing of assets. There is no assurance that the Corporation will be able to obtain funding from these or other sources. If the Corporation is unable to obtain sufficient additional funding to finance continuing operations, it will be dependent on the continued support of its creditors, failing which the Corporation's ability to maintain continued operations may be adversely affected.

### 3. Significant accounting policies

- (a) Consolidation: These consolidated financial statements include the accounts of the Corporation and its subsidiaries.
- (b) Revenue recognition: Revenue from fixed price and long-term contracts is recorded on a percentage of completion basis. Estimated earnings are accrued based upon the percentage that costs to date are of total estimated costs. Projected losses are provided in full as soon as they become apparent. Revisions in estimated costs and earnings during the course of work are reflected during the accounting period in which the data that determines such revisions becomes known.

Revenue generated from subscriptions is recognized over the term of the related subscription. Revenues from network customers is recognized as the services are provided.

Commissions earned on media placements are recognized at the time the related advertisements are run. Production fees are recognized when a product or a portion thereof is completed and billable under the terms of the client agreement. Disbursement and fee income are recognized at the time the work is performed and collection is determined to be reasonably assured. Gross revenue includes both fees and recoverable expenses.

Rental income derived from operating leases is recognized as revenue over the term of the lease. The related equipment is depreciated in accordance with the Corporation's depreciation policy.

- (c) Leases: Leases are classified as capital or operating based upon the terms and conditions of the contracts.
- (d) Inventory: Finished goods and work in progress are recorded at the lower of cost and replacement cost.
- (e) Technology and product research and development costs: Research costs are expensed as incurred. Development costs of new interactive software learning systems and products and new Internet software systems are capitalized if they meet generally accepted accounting criteria for deferral.

Amortization is determined on a system or product basis based on the straight-line method over the remaining estimated economic life of the product or system, currently three years. The value of development costs is regularly reviewed and where there is considered to be an impairment in the estimated net recoverable amount of these costs, based upon expected future cash flows, the costs are written down to their estimated recoverable value. Amortization during the year was \$579,000 (2003 - \$1,195,000).

- (f) Computer and premises assets: Computer and premises assets are recorded at cost. Depreciation is recorded on computer and premises assets at rates consistent with their expected useful lives using straight-line methods ranging from 10 percent to 100 percent. Depreciation during the year was \$1,200,000 (2003 - \$1,281,000).
- (g) Goodwill: Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is

allocated as of the date of the business combination to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying value amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of operations before extraordinary items and discontinued operations.

- (h) Investments: Investments in companies where the Corporation retains a minor ownership position and does not exert significant influence thereon are recorded on the cost basis of accounting. These investments are included in Other Assets.
- (i) Foreign currency translation: The Corporation uses the temporal method of foreign currency translation to translate the accounts of its foreign subsidiaries, which are considered financially and operationally integrated. Transactions in foreign currencies are translated at the rate in effect at the time of the transaction. Resulting unrealized gains or losses are charged to earnings. Foreign exchange income during the year included in interest and financing charges is \$68,000 (2003 - \$165,000).
- (j) Income taxes: The Corporation uses the liability method of accounting for income taxes, whereby future income tax liabilities and future income tax assets are recorded based on temporary differences being the difference between the carrying amount of an asset and liability in the consolidated balance sheet and its tax basis.
- (k) Per Share amounts: Net loss per share has been calculated using the weighted average number of shares outstanding for the year of 42,054,819 (2003 - 39,312,400). Diluted earnings per share is calculated using the treasury stock method to determine effects of warrants and options. Diluted loss per share has not been shown separately as the exercise of options and warrants outstanding at June 30, 2004 and June 30, 2003 would have an anti-dilutive effect on net loss per share.
- (l) Use of estimates and measurement uncertainty: The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reported period. The Corporation operates in a highly competitive and technology driven environment. The consumer software and telecommunications industry is undergoing substantial change and is subject to a high level of uncertainty. The Corporation's operations include developing and marketing Internet-based software programs for new and evolving markets. Accordingly, management's determination as to the recoverability of costs deferred in relation to these operations includes a forecasting process based on estimates of future events which are often made with limited information. The Corporation has estimated the recoverability of the majority of its goodwill and acquired technology based upon rapidly changing industry trends, an intense competitive environment, changing technology trends and anticipated economic factors. Should the Corporation's business environment or conditions or business change, it may result in an impairment of these assets and may in turn result in an adjustment of the future carrying values by a material amount. Other areas of significant estimate include recoverability of technology and development costs, expenses charged under construction and operating contracts, amortization periods for capital assets, cost of excess space, future income tax assets, purchase price allocations on business combinations and contingencies related to consideration for acquisitions. Actual results could differ from management's best estimates and underlying assumptions, as additional information becomes available in the future.
- (m) Stock-based compensation plans: Effective July 1, 2002, the Corporation adopted the new accounting standards with respect to accounting for stock-based compensation. These new standards establish the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. It applies to transactions in which the Corporation grants shares of common stock, stock options, or other equity instruments or incurs liabilities based on the price of common stock or other equity instruments.

The Corporation uses settlement date accounting to account for employee stock options and uses the Black-Scholes model for estimating the fair value of the stock options issued. The assumptions used in the model include a risk free interest rate of 4.0 percent, volatility of 88 percent and a 5 year option life. Had the Corporation determined compensation costs based on the fair value at the date of grant for its stock options, the proforma net loss and net loss per share would have been as follows:

		2004		2003
Net loss from continuing operations as reported	\$	(6,032)	\$	(12,168)
Net loss as reported		(9,163)		(24,558)
Proforma net loss from continuing operations		(6,124)		(12,242)
Proforma net loss per share		(0.15)		(0.31)
Proforma net loss		(9,255)		(24,632)
Proforma net loss per share		(0.22)		(0.63)

- (n) Joint Ventures: The Corporation's interest in jointly controlled partnerships and corporations are accounted for as joint ventures using the proportionate consolidated method of accounting whereby the Corporation's prorata share of the assets, liabilities, revenue and expenses of the jointly controlled entities are included in the consolidated financial statements.
- (o) Disposal of Long-Lived Assets and Discontinued Operations: In December 2002, the CICA issued revised Handbook section 3475 "Disposal of Long-Lived Assets and Discontinued Operations" applicable to the disposal activities initiated by the Company on or after May 1, 2003. The Corporation adopted these revised standards during fiscal 2003 (note 19). The adoption was retroactive to July 1, 2002.

#### 4. Business acquisitions

The following acquisitions were completed in fiscal 2003:

		Parallel
Goodwill	\$	225
Consideration paid:		
Cash	\$	204
Acquisition costs		21
	\$	225

- (a) Effective July 1, 2002, the Corporation acquired the remaining 4 percent equity interest in its subsidiary Parallel Strategies Group Ltd. ("Parallel"), a corporation that provides integrated marketing and communication services. The acquisition was accounted for using the purchase method of accounting with the results of operations included from the date of acquisition. This business was sold in fiscal 2003 (note 19).
- (b) In July 2002, the Corporation entered into an agri-business marketing and communications partnership "AdFarm" with The Parker Group Communications Inc. ("TPG"), whereby the Corporation contributed net assets at an ascribed value of \$442,000 to obtain a resulting 47.4 percent partnership interest. The Corporation's interest in the AdFarm partnership is accounted for as a joint venture using the proportionate consolidation method of accounting whereby the Corporation's 47.4 percent prorata share of the assets, liabilities, revenues and expenses of the partnership is included in the consolidated financial statements.

The shareholders of TPG have the right and option at any time after July 1, 2005 to sell and to cause Axia to purchase all of their shares of TPG for consideration consisting of cash and / or shares of the Corporation. Upon Axia acquiring all of the shares of TPG it would have a 100 percent interest in the AdFarm partnership. The value of consideration paid is determined based on the partnership's historical profitability.

#### 5. Inventory and work in progress

		2004		2003
Interactive Networks				
Inventory	\$	3	\$	-
Work in progress		-		87
Interactive NetMedia				
Inventory		7		9
Work in progress		553		420
	\$	563	\$	516

#### 6. Technology and product development costs

		Cost	Accumulated amortization	Net book value
June 30, 2004	\$	4,732	\$	4,298
June 30, 2003	\$	4,143	\$	3,150
			\$	434
				993

## 7. Capital assets

June 30, 2004	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 2,747	\$ 1,294	\$ 1,453
Computer software	228	188	40
Furniture and fixtures	1,126	584	542
Leasehold improvements	2,640	799	1,841
	\$ 6,741	\$ 2,865	\$ 3,876

June 30, 2003	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 3,705	\$ 2,658	\$ 1,047
Computer software	1,134	1,077	57
Furniture and fixtures	1,949	684	1,265
Leasehold improvements	2,533	569	1,964
	\$ 9,321	\$ 4,988	\$ 4,333

## 8. Goodwill

During fiscal 2003, goodwill impairment of \$8.54 million was determined of which \$3.49 million was charged to discontinued operations (note 16), and \$5.05 million was charged to continuing operations.

## 9. Other assets

	2004	2003
Deferred costs	\$ 695	\$ 560
Deposits	632	237
Investments	467	628
	\$ 1,794	\$ 1,425

## 10. Bank indebtedness

During fiscal 2004, the Corporation repaid its revolving demand term loan. At June 30, 2004 the Corporation's remaining bank credit facilities comprised a letter of credit facility totaling \$4.32 million. This was subsequently reduced to \$1.83 million effective August 1, 2004.

## 11. Term loan

On December 22, 2003, the Corporation entered into a term loan in the principal amount of \$3.5 million. The term loan had an annual interest rate of 15%, was secured by a subordinated charge on all the assets of the Corporation, and was due and payable on June 16, 2004 together with all accrued interest thereon. This term loan was repaid in full on March 8, 2004. Subscriptions to the term loan included proceeds of \$0.95 million from certain insiders of the Corporation.

In conjunction with the term loan, the Corporation issued 2,625,000 warrants to the subscribers. Each warrant entitles the subscriber to purchase a common share of the Corporation at an exercise price of \$0.60 and may be exercised any time prior to December 22, 2006. At June 30, 2004 all 2,625,000 warrants remained outstanding.

## 12. Notes payable

In November 2003, the Corporation entered into a financing agreement with a major equipment manufacturer for a final \$2.0 million promissory note under the existing long-term facility. At June 30, 2004, the promissory notes under the facility aggregated \$4.0 million bearing interest at 8 percent per annum and are due in full on October 3, 2005.

## 13. Term debt

During 2004, the Corporation entered into credit agreements for a principal amount of \$8.035 million of term debt with a group of investors. The term debt has an annual interest rate of 7.5% payable quarterly, and is secured by a subordinated charge on all the assets of the Corporation.

Of this amount, \$5.6 million is due and payable on June 5, 2005, \$1.6 million is due and payable on July 8, 2005 and the remaining \$0.835 million is due and payable on July 30, 2005. Subscriptions to the term debt included proceeds of \$0.5 million from certain insiders of the Corporation.

In conjunction with the term debt, the Corporation issued 6,026,250 warrants to the subscribers. Each warrant entitles the subscriber to purchase one common share of the Corporation at an exercise price of \$0.60. These warrants may be exercised at any time before their date of expiration, which varies between June 5, 2005 and July 30, 2005. If the weighted average trading price of the Corporation's common shares for the 20 days preceding expiry is less than \$1.00 per common share, then the date of expiry will be extended by one year.

At June 30, 2004, all of these warrants remain outstanding.

## 14. Share capital

- (a) Authorized: Unlimited number of common shares

Unlimited number of first and second preferred shares, issuable in series.

- (b) Common shares issued.

	June 30, 2004		June 30, 2003	
	Number	Amount	Number	Amount
Balance, beginning of year	42,055	\$ 77,094	36,220	\$ 73,131
Issued for cash:				
Private placement	-	-	5,818	4,364
Exercise of options	-	-	17	17
Share capital applied to deficit		(69,155)	-	-
Share issue costs	-	-	-	(418)
	42,055	\$ 7,939	42,055	\$ 77,094

- (c) Pursuant to an initial closing on December 19, 2002 and a second closing on December 20, 2002, the Corporation completed a private placement for an aggregate of 5,818,367 common shares at a price of \$0.75 per share for gross proceeds of \$4,363,775. In conjunction with the private placement, the Corporation issued to the agent an aggregate of 202,917 compensation options, each compensation option enabling the agent to acquire one common share at a price of \$0.86 per share expiring on December 19, 2004. At June 30, 2003 all 202,917 compensation options remained outstanding.

- (d) Warrants/compensation options:

Issued for	June 30, 2004 Number	June 30, 2003 Number	Exercise price per Share	Date of Expiry	Note Reference
Private Placement	203	203	\$ 0.86	December 19, 2004	note 14(c)
Private Placement	-	209	\$ 1.85	January 25, 2004	-
Term Loan	2,625	-	\$ 0.60	December 22, 2006	note 11
Term Debt	6,026	-	\$ 0.60	Varying from June 6, 2005 to July 30, 2006	note 13
	8,854	412			

- (i) In conjunction with the Term Loan, the Corporation issued 2,625,000 warrants in December 2003. A fair value of \$459,000 ascribed to these warrants has been included within shareholders' equity and was offset against the associated term loan of \$3.5 million. The ascribed value of these warrants was being charged to earnings over the term of the loan which would result in the accretion of the term loan to its principal amount at maturity. However, in March 2004 the term loan was repaid in full and as a result the remaining unamortized value of approximately \$282,000 related to the warrants was expensed during the quarter ended March 31, 2004.

- (ii) In conjunction with the \$8.035 million in Term Debt, the Corporation issued 6,026,250 warrants.

Upon grant of the warrants, the value ascribed to these warrants of \$1,007 million was included within shareholders' equity and offset against the associated term debt. The ascribed value is being charged to earnings over the term of the debt which will result in the accretion of the term debt to its principal amount at maturity.

The Corporation has used the Black Scholes model for calculating the fair value of the warrants at the date of issuance. The assumptions used in the model include a risk-free interest rate of 4 percent, volatility of 60 percent and the life of the warrant.

- (e) Stock options: The Corporation grants stock options to directors, officers and employees. At June 30, 2004 there were 1,200,000 (2003 - 1,770,000) stock options outstanding to acquire Common Shares at prices ranging from \$0.75 to \$14.20 per share, with expiry dates ranging from October 2005 to June 2009.

The following table sets forth a reconciliation of stock options granted, exercised and cancelled during the years ended June 30, 2004 and June 30, 2003:

	2004		2003	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	1,770,000	\$ 2.32	2,275,836	\$ 3.13
Granted	80,000	0.61	430,000	1.05
Exercised	-	2.96	(17,000)	1.00
Cancelled	(650,000)	-	(918,836)	3.75
Outstanding, end of year	1,200,000	\$ 1.83	1,770,000	\$ 2.32
Exercisable	454,996	\$ 2.97	626,665	\$ 3.57

The following table sets forth information relating to stock options outstanding at June 30, 2004:

Range of exercise prices	Number outstanding at June 30, 2003	Weighted-average remaining contractual life	Weighted-average exercise price
\$ 0-\$5.00	1,100,000	3.69	\$ 1.52
\$5.01-\$10.00	100,000	2.33	5.60
\$10.01-\$15.00	-	-	-
\$0-\$15.00	1,200,000	3.54	\$ 1.86

The following table sets forth information relating to stock options outstanding at June 30, 2003:

Range of exercise prices	Number outstanding at June 30, 2004	Weighted-average remaining contractual life	Weighted-average exercise price
\$ 0-\$5.00	1,500,000	3.39	\$ 1.56
\$5.01-\$10.00	255,000	1.68	6.09
\$10.01-\$15.00	15,000	1.67	14.20
\$0-\$15.00	1,770,000	3.03	\$ 2.32

- (e) On November 6, 2003, the shareholders of the Corporation approved a resolution to reduce the share capital of the Corporation in the amount of \$69,155 million. This reduction was applied to the deficit of the Corporation.

## 15. Income taxes

- (a) The income tax provision differs from income taxes recovery, which would result from applying the expected income tax rate to net loss from operations before income taxes. The differences between the computed "expected" income tax recovery and the actual income tax provision are summarized as follows:

	2004	2003
Net loss before tax	\$ (6,489)	\$ (10,673)
Expected income tax rate	35.7%	37.7%
Computed "expected" income tax recovery	(2,314)	(4,024)
Difference resulting from:		
Non-deductible amortization and expenses	157	3,808
Benefit of losses and other tax deductions in excess of book items not recognized	1,696	1,607
Capital tax	4	104
Provision for taxes	\$ (457)	\$ 1,495

- (b) The components of the Corporation's future tax assets at June 30, 2004, of which a portion recorded in these financial statements, are as follows:

	2004	2003
Non-capital losses	\$ 16,032	\$ 10,379
Capital losses	731	-
Research and development tax pools	254	250
Capital assets	7,226	6,621
Other	307	538
	24,550	17,788
Less valuation allowance	(24,550)	(17,788)
	\$ -	\$ -

The Corporation has non-capital loss carry forwards of approximately \$48,295,000 (2003 - \$31,663,000) which have been reflected above and begin to expire in 2004. The Corporation also has investment tax credit carryforwards of \$56,000 which begin to expire in 2004.

A summary of the non-capital loss carryforwards by year of expiry is as follows:

Year of expiry	
2005	\$ 6
2006	739
2007	40
2008	2,665
2009	6,545
2010	6,280
2011	12,305
2012	-
2013	-
2014	11,941
Indefinite	7,774
	\$ 48,295

## 16. Supplemental cash flow information

	2004	2003
Cash paid during the year for:		
Interest	\$ 1,019	\$ 673
Taxes	119	109
Cash interest received	(11)	(17)

## 17. Commitments

(a) Future minimum payments under operating leases for the five years ended 2009 are as follows:

2005	\$ 1,832
2006	1,612
2007	1,669
2008	1,698
2009	1,694

## 18. Segmented information

(a) Operating segments: The Corporation operates in the industry segments of Interactive Media Services and Interactive Network Services. The Corporation has further segmented its results to include Corporate overhead. The comparative figures have been reclassified to conform with the current financial statement presentation.

For the year ended June 30, 2004, and 2003

	Interactive Media Services		Interactive Network Services		Corporate overhead		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
Revenue	\$ 16,211	\$ 14,021	\$ 27,557	\$ 85,082	\$ 120	\$ -	\$ 43,888	\$ 99,103
Gross profit	3,976	3,536	3,260	6,657	120	-	7,356	10,193
Expenses: administration, marketing and business development	5,267	8,085	1,639	1,206	3,281	2,976	10,187	12,267
Interest	(16)	(191)	108	582	1,128	777	1,220	1,168
Warrant financing charge	-	-	-	-	689	-	689	-
Depreciation and amortization	801	1,012	127	71	821	1,302	1,749	2,385
Goodwill impairment	-	5,046	-	-	-	-	-	5,046
Total expenses	6,052	13,952	1,874	1,859	5,919	5,055	13,845	20,866
Future tax expense	-	-	-	1,040	-	-	-	1,040
Tax expense (recovery)	-	-	(353)	351	(104)	104	(457)	455
Income (loss) from continuing operations	(2,076)	(10,416)	1,739	3,407	(5,695)	(5,159)	(6,032)	(12,168)
Loss from discontinued operations	(796)	(6,645)	(2,335)	(5,745)	-	-	(3,131)	(12,390)
Net loss	\$ (2,872)	\$ (17,061)	\$ (596)	\$ (2,338)	\$ (5,695)	\$ (5,159)	\$ (9,163)	\$ (24,558)
Capital expenditures including acquisitions	\$ 272	\$ 622	\$ 431	\$ -	\$ 254	\$ 694	\$ 957	\$ 1,316

As at June 30, 2004 and June 30, 2003

Identifiable assets:

Current asset	\$ 4,243	\$ 4,224	\$ 4,416	\$ 5,570	\$ 166	\$ 390	\$ 8,825	\$ 10,184
Intangibles	434	993	-	-	-	-	434	993
Capital assets	448	343	660	357	2,768	3,633	3,876	4,333
Goodwill	2,433	2,433	4,201	4,201	-	-	6,634	6,634
Other	342	573	405	460	1,047	392	1,794	1,425
Assets of discontinued operations	-	1,859	372	9,142	-	-	372	11,001
	\$ 7,900	\$ 10,425	\$ 10,054	\$ 19,730	\$ 3,981	\$ 4,415	\$ 21,935	\$ 34,570

b) Approximately all of the revenues reported for fiscal 2004 and 2003 in the Interactive Network Services segment were generated from the Alberta SuperNet Agreements.

## 19. Discontinued operations

During fiscal 2003, the Corporation decided to dispose of its mentoring and consulting business and its marketing and communications business which were components of its Interactive Media Services segment. The mentoring and consulting business is located in the United Kingdom and is being voluntarily liquidated in accordance with a court-sanctioned receivership action. The marketing and communications business was sold to a third party effective May 31,

2003. The Corporation retained the premises operating lease relating to this business, for which excess space costs have been accrued (note 27).

During the second quarter of fiscal 2004 the Corporation sold Dual Media, which had business activities within the recreational media markets and was a component of the Interactive Media Services segment.

The Corporation also decided to dispose of its network cabling business which was a component of its Interactive Network Services segment. This business was sold to a third party effective August 31, 2003 pursuant to an asset purchase and sale agreement. Assets with a carrying value of \$3.9 million were sold. The Corporation retained certain operating leases related to this business for which costs of excess space have been accrued (note 27). The results of these discontinued components are as follows:

For the year ended June 30, 2004 and 2003 (unaudited)

(\$000s)	2004	2003
Revenue	\$ 4,863	\$ 37,378
Cost of products and services sold	4,024	26,932
Gross profit	839	10,446
Expenses:		
Marketing	549	4,867
Administration	2,107	10,230
Interest	104	198
Depreciation and amortization	157	1,964
Goodwill impairment	-	3,493
Loss on disposal	1,053	2,194
Income tax expense (recovery)	-	(110)
	3,970	22,836
Net loss from discontinued operations	\$ (3,131)	\$ (12,390)

Assets and liabilities presented in the consolidated balance sheets include the following assets and liabilities of discontinued operations:

As at June 30, 2004 and June 30, 2003

(\$000s)	June 30, 2004	June 30, 2003
Current Assets	\$ 372	\$ 8,747
Technology and product development costs	-	80
Capital assets	-	2,174
Current Liabilities	(717)	(6,586)
	\$ (345)	\$ 4,415

The cash flows from discontinued operations are as follows:

For the year ended June 30, 2004 and 2003 - unaudited

(\$000s)	2004	2003
Cash provided by (used in):		
Operating activities:		
Net loss from discontinued operations	\$ (3,131)	\$ (12,390)
Items not involving cash:		
Depreciation and amortization	157	1,964
Goodwill impairment	-	3,493
Loss on Disposal	1,053	-
Funds used in discontinued operations	(1,921)	(6,933)
Changes in non-cash working capital items:		
Account receivable	6,248	3,711
Prepaid expenses	75	326
Inventory and work in progress	1,096	3,982
Accounts payable and accrued liabilities	(5,856)	(4,738)
Deferred Revenue	(13)	(2,836)
	(371)	(6,488)
Change in cash	238	(172)
Funds generated from (used in) discontinued operations	(133)	(6,660)
Investing activities:		
Disposal (purchase) of capital assets	(28)	1,602
Purchase of technology and product development costs	-	(133)
Proceeds on sale of capital assets	1,997	-
	\$ 1,836	\$ (5,191)

## 20. Financial instruments

- (a) Fair value of financial instruments: The fair value of the Corporation's notes cannot be determined due to the absence of a current market for these instruments. The carrying amounts of the Corporation's other financial assets and liabilities at June 30, 2004 and 2003 approximate their fair value due to their short term to maturity.
- (b) Credit risk: Credit risk reflects the risk that the Corporation may be unable to recover accounts receivable. The Corporation has a significant number of individual contracts whereby one set of contracts represents a concentration of credit risk.

## 21. Related party transactions

In March 2003, the Corporation's subsidiary, Axia SuperNet Ltd. issued an unsecured promissory note to a company, a principal shareholder and director of which is also a senior officer and director of the Corporation. The note provided \$1.0 million of short term financing and was issued at a discount of approximately 9 percent. The full amount of the note has been repaid as at June 30, 2003. The transaction was based upon normal commercial terms and approved by an independent committee of the Corporation's Board of Directors.

As described in notes 11 and 13, certain insiders of the Corporation subscribed for the Term Loan and Term Debt issued by the Corporation during the current fiscal year. The Terms and conditions of both of these financings were determined by independent third party subscribers.

## 22. Significant contracts

On July 24, 2001, the Corporation's wholly owned subsidiary Axia SuperNet Ltd. signed agreements with respect to the construction and operation of a high bandwidth network to be operated throughout the Province of Alberta, with Bell West Inc. ("BW") and the Government of Alberta ("GOA"). Axia SuperNet Ltd. is the access manager and operator of the Alberta SuperNet under a license agreement for an initial term of ten years. Axia SuperNet Ltd. was also the construction sub-contractor for the extended network under subcontract to BW. These agreements represented approximately 63 percent and 86 percent of the Corporation's revenues during the years ended June 30, 2004 and 2003 respectively.

On March 18, 2003, Axia SuperNet Ltd. renegotiated its construction subcontract and entered into an agreement with the GOA and BW to reorganize responsibilities and duties related to the construction of the extended network portion of the Alberta SuperNet. Pursuant to the agreement, Axia SuperNet Ltd. will contract with and continue to provide the following construction related services directly to the GOA:

- (a) The responsibility for network design and electronic provisioning;
- (b) Advisory support;
- (c) The supply of Cisco electronics; and
- (d) The responsibility to complete an existing major transaction for the purchase of the third party network assets which has been completed.

In addition, the agreement terminated the existing cost plus fixed fee construction subcontract between Axia SuperNet Ltd. and BW pursuant to the following parameters:

- (a) Construction contracts between Axia SuperNet Ltd. and other parties including associated liabilities are assigned to BW.
- (b) Those assets that Axia SuperNet Ltd. has acquired for deployment in the extended network will be assigned to BW.
- (c) The GOA will make payment directly to Axia SuperNet Ltd. for costs and expenditures incurred under the subcontract.
- (d) Claims for damages between Axia SuperNet Ltd. and BW will be determined by arbitration in accordance with existing agreements between the parties. This included that outstanding portion of Axia SuperNet Ltd.'s \$10.0 million fee for its role in the construction of the extended network.

The ten year renewable license agreement with the GOA to manage and operate the Alberta SuperNet was not affected by the renegotiated agreement noted above.

## 23. Axia Broadband Services Ireland Limited

The Corporation has a 90 percent interest in Axia Broadband Services Ireland Limited ("Axia Ireland"), which was established during fiscal 2003. As the Corporation shares control of Axia Ireland with the 10 percent shareholder, this investment has been accounted for as a joint venture using the proportionate consolidation method of accounting. The 10 percent shareholder subscribed for its interest for \$3.2 million (2.0 million euros), which will be used to fund Axia Ireland broadband network initiatives. The 10 percent shareholder was provided with options to increase its ownership interest in Axia Ireland to a total of 40 percent by subscribing for additional shares for proceeds of \$14.8 million (9.25 million euros). The first option, which would increase the 10 percent shareholder's interest to 25 percent by payment of

\$4.8 million (3.0 million euros), expires on March 10, 2006. The 10 percent shareholder's initial investment of \$3.2 million resulted in a deferred amount of \$2.8 million which has been reduced by the Corporation's share of project development costs for Axia Ireland.

At any time prior to the 10 percent shareholder exercising the first option to increase its ownership interest, the 10 percent shareholder may elect to sell all of its ownership interest in Axia Ireland to the Corporation for an amount equal to the balance remaining unspent and uncommitted of the monies paid for its 10 percent interest. The 10 percent shareholder gave notice to the Corporation, subsequent to June 30, 2004, of its intention to sell its ownership position in Axia Ireland as no network initiatives were being pursued. The amount of the purchase price was determined to be \$1.6 million. As at June 30, 2004, this amount has been included in current liabilities.

## 24. Investment in joint ventures

The Corporation accounts for its interest in partnerships and Axia Broadband Services Ireland Limited as investments in joint ventures.

Assets and liabilities presented in the consolidated balance sheets include the following assets and liabilities of these investments:

(\$000s)	2004	2003
Current assets	\$ 4,686	\$ 5,832
Capital assets	208	235
Other assets	328	573
Current liabilities	(3,823)	(3,372)
	\$ 1,399	\$ 3,268

The current assets comprise approximately \$3.2 million of cash as at June 30, 2004 (2003 - \$4.1 million) of which \$1.6 million (2003 - \$2.5 million) was retained in Axia Ireland to pursue network initiatives in Ireland.

The consolidated statements of operations include the following revenues and expenses of these investments:

(\$000s)	2004	2003
Revenues	\$ 12,817	\$ 10,828
Direct Costs	10,558	9,212
Gross Margin	2,259	1,616
Expenses:		
Marketing	94	163
Administration	1,047	971
Interest	22	-
Depreciation	109	79
Total Expenses	1,272	1,213
Net Income	\$ 987	\$ 403

The cash flows of these investments are as follows:

	9 months ended	
(\$000s)	2004	2003
Cash provided by:		
Operations	\$ (788)	\$ 1,686
Investing	(81)	(314)
Increase (decrease) in cash	\$ (869)	\$ 1,372

## 25. Guarantees, contingencies and commitments

In the normal course of business, the Corporation enters into numerous agreements that may contain features that meet the definition of an indemnification and guarantee to counterparties in transactions, such as business dispositions, the sale of assets or the sale of services.

These indemnification undertakings and guarantees may require the Corporation to compensate the counterparties for costs and losses incurred as a result of various events, including breaches of representations and warranties, or as a result of litigation that may be suffered by the counterparties.

The nature of the indemnifications and guarantees prevent the Corporation from making a reasonable estimate of the maximum potential amounts that the Corporation could be required to pay the counterparties. The amounts are dependent upon the outcome of future contingent events, the nature and likelihood of which cannot be determined at this time. Historically, the Corporation has not made any material payments under such indemnifications.

During the course of operations, the Corporation's subsidiary Axia SuperNet Ltd., enters into a number of commitments related to the SuperNet agreements. Under the terms of the licence agreement to operate the Alberta SuperNet, Axia SuperNet Ltd. is committed to certain operating expenditures and committed to providing certain standards of customer service and performance. Axia SuperNet Ltd. has agreements with third parties which generate

revenues in excess of these operating expenditures. Axia SuperNet Ltd. has provided a letter of credit in the amount of \$4.0 million pursuant to the SuperNet agreements. Subsequent to year end, the amount of this letter of credit was reduced to \$1.5 million. In the event of a material default by Axia SuperNet Ltd. resulting in the termination of the SuperNet agreements, the beneficiary would be able to draw on the letter of credit.

In addition, Axia SuperNet Ltd. is also committed to providing additional services, which generate revenues but will also involve a certain amount of expenditure which may be significant.

Contingent liabilities in the form of letters of credit and performance bonds are provided to third parties pursuant to contractual terms. At June 30, 2004, the Corporation had letters of credit outstanding in the amount of \$4.32 million. This amount was subsequently reduced to \$1.83 million effective August 31, 2004.

In the normal course of operations, the Corporation may be subject to litigation and claims from customers, suppliers and former employees. The Corporation is also involved in litigation respecting payment for a portion of the proceeds from the sale of a discontinued business unit. Although it is not possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies would not have a material adverse effect on the financial position of the Corporation.

## **26. Comparative figures**

Certain comparative figures have been reclassified to conform with the financial statement presentation for the current year.

## **27. Cost of excess space**

In fiscal 2003, the Corporation decided to dispose of certain components in its Interactive Media Services Segment and its Network Cabling business, a component in its Interactive Network Services segment (note 19). Related to these disposals, the Corporation has identified certain retained lease commitments that are not expected to provide future economic benefit over the remaining lease term of approximately eight years. Accordingly, included in loss on disposal and net loss from discontinued operations is \$719,000 (2003 - \$833,000) representing future costs net of estimated recovery through sublease arrangements.

In addition, the Corporation has determined that certain other leased premises, originally to be utilized on future expansion, will no longer be required. The lease term remaining related to these premises is approximately nine years. An additional charge of \$364,000 (2003 - \$547,000) representing total future costs net of estimated recovery through sublease arrangements, has been recorded in continuing operations for the year ended June 30, 2004.

## **28. Subsequent Events**

Subsequent to June 30, 2004, the Corporation reduced its letters of credit outstanding from \$4.32 million to \$1.83 million (note 10 and 25).

During July, 2004, the minority 10 percent shareholder of Axia Ireland gave notice that it has elected to sell its share ownership of Axia Ireland to the Corporation (note 23).

As reported previously in 2003, Bell West initiated a binding arbitration process involving Axia and the Government of Alberta respecting Axia's draws on a letter of credit which supports Bell West's obligations to Axia under the Alberta SuperNet Access Management and Operations Licence Agreement. Bell West claimed that Axia had inappropriately drawn approximately \$21 million on the letter of credit and further alleged that certain amounts were incorrectly charged. Axia maintained that Bell West's position was without merit, that Axia was entitled to draw on the letter of credit and that Axia had properly invoiced the charges which resulted in the letter of credit draw. The formal arbitration hearings concluded in July 2004 and on September 10, 2004, subsequent to the end of fiscal 2004, the arbitrators issued their binding report which upheld Axia's position on all contractual interpretation issues. In respect of the \$21 million drawn on the letter of credit, approximately 98 percent of the charges were confirmed as appropriate and approximately 2 percent are subject to some adjustment having to do with interest rates charged, calculation of employee benefit amounts and the like. The final adjustment amounts have not been determined at this time.

Axia previously commenced a separate binding two-way arbitration proceeding claiming damages arising from Bell West's repudiation of the Alberta SuperNet construction contract in late 2003. The timing for the conclusion of this arbitration has not yet been determined. This second arbitration is not affected by the September 10, 2004 decision.

### **Corporate Directors**

Art Price, *Chairman*

C. Kent Jespersen

Robert L. Phillips

Gordon Rawlinson

John Read

### **Corporate Officers**

Art Price

*Chief Executive Officer*

Murray Wallace

*President*

Peter McKeown

*Chief Financial Officer*

Drew McNaughton

*President, Axia SuperNet Ltd.*

Dawn Tinling

*Vice-President, Communications and Human Resources*

Stephen Walker

*Managing Director, Interactive Media Services*

William Smith, Q.C.

*Corporate Secretary*

### **Transfer Agent**

Computershare Trust Company of Canada

Calgary, Alberta

### **Bankers**

Canadian Imperial Bank of Commerce

Calgary, Alberta

### **Lawyers**

McCarthy Tétrault LLP

Calgary, Alberta

### **Auditors**

KPMG LLP

Calgary, Alberta

### **Stock Exchange Listing**

Toronto Stock Exchange "AXX"

### **Axia NetMedia Corporation**

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